

DOCKET SECTION

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D.C. 20268-0601

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POSTAL RATE  
OFFICE OF THE CONSUMER ADVOCATE

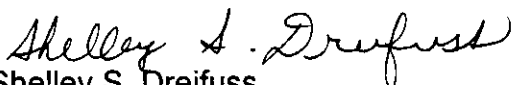
Postal Rate and Fee Changes, 1997 )

Docket No. R97-1

ANSWERS OF THE OFFICE OF THE CONSUMER ADVOCATE  
TO INTERROGATORIES OF UNITED STATES POSTAL SERVICE  
WITNESS: GAIL WILLETTE (USPS/OCA-T400-12-15)  
(FEBRUARY 11, 1998)

The Office of the Consumer Advocate hereby submits the answers of Gail Willette  
to interrogatories of United States Postal Service, dated January 28, 1998. Each  
interrogatory is stated verbatim and is followed by the response.

Respectfully submitted,

  
Shelley S. Dreifuss  
Attorney  
Office of the Consumer Advocate

ANSWERS OF OCA WITNESS GAIL WILLETTE  
TO INTERROGATORIES USPS/OCA-T400-12-15

USPS/OCA-T400-12. On pages 11-14 of your testimony, you discuss the potential revenue loss associated with your CEM proposal. Please confirm that your analysis of the financial impact of CEM did not include any additional costs that would be incurred by the Postal Service in implementing and maintaining CEM. If not confirmed, please explain.

A. Confirmed. To the extent that any such costs exist, the Postal Service has declined to provide them. See, for example, Tr. 19/9037, Tr. 19/9361, and Tr. 19/9371. Also, please keep in mind that the cost avoidance identified by witness Miller for PRM (which also applies to CEM) was actually \$0.04. The proposed discount for PRM is 75 percent of that cost avoidance.

ANSWERS OF OCA WITNESS GAIL WILLETTE  
TO INTERROGATORIES USPS/OCA-T400-12-15

USPS/OCA-T400-13. On page 21, lines 8-9, of your testimony, you state, "...CEM will not cause businesses to incur more than *de minimus* incremental costs."

(a) In your opinion, will CEM impose any additional costs on consumers, for example, costs associated with purchasing and maintaining two sets of stamps?

(b) If your answer to part (a) is "yes" please explain the nature of these additional costs and quantify their amounts.

(c) If your answer to part (b) is "no," please explain

A. (a)-(c) I would expect these costs to be negligible, although I cannot quantify them. Keep in mind that the purchase and maintenance of two sets of stamps is voluntary. I would expect consumers who find it inconvenient would choose to use only the full-price stamps. Also, if enough demand for CEM stamps develops, private sector retailers who sell stamps (e.g., grocery stores) may offer CEM stamps as a convenience to customers. In addition, the Postal Service may decide that two-denomination booklets should be offered to consumers, further reducing any inconvenience.

ANSWERS OF OCA WITNESS GAIL WILLETTE  
TO INTERROGATORIES USPS/OCA-T400-12-15

USPS/OCA-T400-14. On page 24, lines 7-9, of your testimony, you state that "Automatic debit and computer payment systems are still in their infancy, and many question their reliability; we are still largely a society which needs or desires a paper record of transactions, which payment by mail facilitates."

(a) Please explain what you mean when you say that automatic debit is still in its infancy.

(b) Provide the basis for your assertion that many question the reliability of automatic debit and payment systems.

(c) The quoted statement seems to suggest that electronic diversion does not pose much of a threat to the First-Class mail stream. Is this your contention? Please explain.

A. (a) I mean that it is not a widespread practice among consumers. Far more consumers currently pay bills by mailing checks than by using automatic debit. Please see also the testimony of USPS witness Tolley, USPS-T-6, page 56: "Use of automatic deductions from banking accounts, personal computers, and phones accounted, respectively, for 17 percent, 0.8 percent and 1.3 percent of the way household monthly bills were paid in 1995 [Table 4-49]."

(b) This issue has arisen many times in the course of my examination of CEM issues. Consumers will need more time to trust automatic debit and INTERNET banking, just as they needed time to adjust habits to ATM use. Also please see USPS-T-6, page 51: "In many cases, the electronic communication is accompanied by a letter mailing." On page 57 witness Tolley states: "NationsBank, for example, which has offered home banking for nearly seven months, still issues paper checks for about 55 percent of its PC-based and on line home-banking transactions."

(c) It seems clear to me that electronic diversion poses a threat to the First-Class mail stream. I cannot quantify this threat for the period during which these rates

ANSWERS OF OCA WITNESS GAIL WILLETTE  
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would be in effect. One of the benefits of CEM is that consumers can choose to use First-Class Mail at a reduced rate rather than choose an alternative means of making remittances. As the costs of these alternatives move closer together and as consumers acclimate to the alternatives, it seems reasonable to assume that diversion to electronic media will accelerate.

ANSWERS OF OCA WITNESS GAIL WILLETTE  
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USPS/OCA-T400-15. On pages 11-12 of your testimony, you indicate that your CEM proposal could involve a revenue reduction of approximately \$200 million.

(a) How would you propose that the Postal Service recover this lost revenue?

(b) If the Postal Service needed to recover this revenue reduction, plus additional costs associated with CEM implementation, from other rates paid by consumers, how would this affect your assessment of the consumer benefits of CEM?

A. (a) Please see my response to USPS/BUG-T400-2.

(b) It is unclear what you mean by consumers. If by consumers you mean CEM users, I do not necessarily agree that the full responsibility for any revenue reduction rests solely on CEM users or even First-Class Mail users. In any event, this is an empirical question. If the immediate revenue shortfall I have identified were spread over all classes of mail, the effect would not cause any rates to increase. I doubt the implementation of CEM would significantly affect the other rates paid by consumers in its first few years; in later years, after implementation, the effect would be even smaller. Ideally, as with worksharing discounts, one would want to look at the costs and benefits associated with offering CEM over time.

## DECLARATION

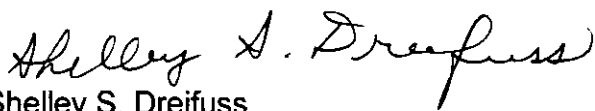
I, Gail Willette, declare under penalty of perjury that the answers to interrogatories USPS/OCA-T400-12-15 of the United States Postal Service are true and correct, to the best of my knowledge, information and belief.

Executed 2/11/98

Gail Willette

# CERTIFICATE OF SERVICE

I hereby certify that I have this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the rules of practice.

  
Shelley S. Dreifuss  
Attorney

Washington, DC 20268-0001  
February 11, 1998